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UNCLAS HARARE 000361

SIPDIS

STATE FOR AF/S AND AF/EX
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR AMANDA HILLIGAS
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: ECON EMIN EINV ETRD PGOV ZI
SUBJECT: Miners Still Glum

¶1. Summary: Mining industry representatives told us the Reserve Bank of Zimbabwe (RBZ)'s new monetary policy has menaced their tattered businesses. Between an overvalued zimdollar and overpriced electricity, they are barely staying afloat. The GOZ still does not appreciate that its 6-year recession will end only when miners and other exporters enjoy a more hospitable business environment. End summary.

¶2. Ambassador Sullivan held a roundtable on Feb 26 with the chiefs of eight of the country's large mining groups. The mining sector has been in rapid retreat since 1997, with gold production falling from $268 to 150 million, ferroalloys from $178 to 67 million and nickel from 71 to 39 million. Only platinum appears on the increase. Roundtable participants represented African Associated, Casmyn, Independence Gold, Rio Tinto, Zimasco, Zimplats as well as the Chamber of Mines. Miners were keenly interested in the U.S. take on Zimbabwe's political stalemate and debated energetically among themselves whether the sector should adopt a more overtly political stance.

No room for profit

¶3. Miners, possibly Zimbabwe's purest exporters, complain they still must surrender 25 percent of earnings for exchange at the official exchange, just one-sixth of the market rate. They convert the rest of earnings at the artificially low auction rate. But before any of this takes place, the GOZ demands a 15 percent royalty on minerals extracted, regardless whether the firms net a profit. Furthermore, the GOZ has raised the rate of duty on imports by a whopping 73-fold since December 1. (It used to peg import duties for miners to the former official rate of Z$56:US$.)

¶4. Worse still, parastatal ZESA now compels exporters to pay more for electricity than counterparts elsewhere in the region. Heavy-energy consuming mining companies pay an average of US 4.5 cents/KW hr, versus 1.7 in South Africa, 1.8 in Namibia, 2.1 in Mozambique, 2.2 in Zambia and 2.6 in Botswana. It appears the GOZ is trying to subsidized retail customers by overcharging exporters.

Comment

¶5. As we have pointed out before, only Zimbabwe's exporters can lead a recovery. Until the GOZ allows exporters to retain more of earnings, they will not produce more. But even under RBZ Governor Gideon Gono's more innovative monetary policy, the GOZ has not come to terms with this. The Zimplats rep joked that a high GOZ official recently expressed bemusement that platinum output is rising while production of all other minerals is plummeting. The Zimplats chief retorted, of course, that only his company was exempted from the draconian exchange requirements that affect the rest of the sector. Invariably, the GOZ's shoots itself in the foot through a stalwart habit of pretending the zimdollar is worth more than the market determines. In mining, the stakes are high. Given that post-land reform agriculture is still in chaos, it is probably mining that will lead a recovery, perhaps eventually displacing agriculture as the country's main forex earner.

Sullivan